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# **HOUSING THEORY: IMPOVERISHED, ETHICALLY SPEAKING**

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## HOUSING THEORY: IMPOVERSISHED, ETHICALLY SPEAKING

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In this commentary on the Focus articles by David Clapham and Hannu Ruonavaara (this issue), I argue that whilst it is not possible to construct a single theory of housing, economics (properly applied) provides sufficient concepts to provide a rich explanatory tool kit. I illustrate this with reference to the role of housing in the Global Financial Crisis, and suggest that the failure of economic forecasting should be distinguished from the ability to explain what happened and why. A narrowly economics approach pays insufficient attention to institutions, especially social institutions, but these are correctable. I go on to argue that economics lacks the necessary ethical dimension to underpin the evaluation of public policy including housing. “Wellbeing” can help us to devise better outcome indicators, but it is another iteration of utilitarianism. As such it lags behind the advances made in moral philosophy that would help to provide an ethical basis for assessing distributional questions arising from housing systems, and, more recently, the arguments advanced in favour of a more plural capabilities approach as a basis for evaluating policy. I conclude that housing could be a fertile testing ground for such approaches, and indeed for informing their development.

### Why is there no theory of housing?

Both Ruonavaara and Clapham ask whether there is a theory of housing. “[A]nything that has a linked set of concepts and propositions,” writes Clapham, “constitutes theory”. For a theory of housing to exist, Ruonavaara suggests that causation is also required to form a hypothesis “to which all housing-related topics can be related”.

Both scholars agree that there is, and is unlikely to be, a (grand) theory of housing.

For Ruonavaara the stumbling block is that “housing is not a research topic but a common denominator of a number of research topics: housing policy, housing provision, housing organizations [etc]” (p. xx). For Clapham, the barrier is the “unique nature of housing” (p. xx). The complexity of housing has required it to be examined through “the lens of different disciplines” (p. xx). Whilst it would be desirable for these perspectives to be brought together into “a coherent single theory” this is presently hindered by frequent incompatibility between “paradigms and concepts” (p. xx). Consequently, “[t]he most that can be expected is for the derivation of a number of trans-disciplinary concepts that could eventually be built up into a universal theory of housing” (p. xx).

I am not wholly convinced by the first of these explanations. Whether housing is a research topic or a common denominator is a moot point. Either way it may not be possible to explain all of the inter-relationships. It is frequently stated that housing is “unique” and Duncan MacLennan’s (1982) book *Housing Economics* (which Clapham cites) highlighted many of its unique features. (That housing is unique does not, of course, preclude other phenomenon – health, for example – from also being unique.)

Economics, however, can provide a rich set of concepts that form a powerful explanatory tool kit.

The role of housing in what became known as the Global Financial Crisis (GFC) in Europe and the Great Recession in North America can be used to illustrate this point. That economics provides a rich explanatory toolkit that reflects housing's special or unique features. These include: its role as being both a consumption good and an investment good; with the important character of being spatially fixed; and, particularly in the present era of globalisation, fascinatingly prone to instability as the most mobile factor of production (finance) is invested in (or disinvested from) the least mobile (land). Sophisticated financial instruments such as mortgage backed securities can be judged as being efficient because they unbundle the process of intermediation, allowing efficiency-gaining specialisation, allocating and pricing risk in the market. However, such specialisation creates a problem of asymmetric information between parties. Credit rating agencies were supposed to represent a solution to this problem, by providing investors with information about the risk of default associated with securitised mortgages. However, when banks realised that the credit rating agencies had failed to perform this function, US sub-prime crisis morphed into a global credit crunch in 2007 as the wholesale markets seized up.. "Next time we'll get sub-prime right," quipped a distinguished economist at a meeting I attended at the World Bank in 2007. The important point is that the key "unique" attributes of housing reflected in this account are comfortably explained by familiar economic concepts.

Of course the credit crunch was not the end of the story, because the credit crunch morphed into the GFC in 2008 and, in turn, into a sovereign debt crisis in some countries such as Greece 2010. (Ironically, the "markets" believed the credit rating agencies' ability to assess the risks associated with government bonds.) These stages unfolded from the housing and housing finance system, but have little to do with housing: the decision by the US Government not to bail out Lehman Brothers being the most important trigger for the banking and economic crisis.

This summary of the GFC points to the most convincing explanation for the absence of a lack of a theory of housing (that Ruonavaara attributes to Kemeny): housing is so manifestly embedded in other parts of society that the idea of a separate theory of housing makes no sense.

Yet the GFC brought about something of a "crisis" in economics. Why had no one predicted it? Here we might distinguish between failures in economic models, and failure in economic theory. One explanation might be that as models are necessarily based on the observation of past relationships, they are susceptible to change. Is this explanation sufficient to negate theory? Probably not on its own. Outside the US, the credit crunch might be explained as being an "exogenous" shock - from outside the model. But more fundamentally, the crisis in economics that followed the GFC focussed on the underlying assumption of the "rational" and "utility maximising" actor. Long before the GFC, this much criticised assumption that underpins classical economics gave rise to an emphasis on "behavioural" economics, with much vaunted inputs from psychology. First published in 2000, Robert Shiller's *Irrational Exuberance* placed an emphasis on herd-like behaviour in explaining the stock market boom, placing an emphasis on hubristic psychology alongside structural and other factors. A chapter on real estate was added in the second edition (Shiller,

2005). Another book, *Animal Spirits* (Akerlof and Shiller, 2009) also pointed to the need for a better understanding of human psychology among economic actors.

It is worth quoting in full the section from Keynes' *General Theory* from which the evocative term "animal spirits" is borrowed:

"Even apart from the instability due to speculation, there is the instability due to the characteristic of human nature that a large proportion of our positive activities depend on spontaneous optimism rather than on a mathematical expectation, whether moral or hedonistic or economic. Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of animal spirits – a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities." (Keynes, 1936: 161-162)

So, for at least 80 years, we have known that hubris can play an important role in economic decisions. We have long known that expectations play a strong role in asset markets such as housing. Perhaps the problem was not theory per se, but the over-reliance placed on the ability of models to predict psychological behaviour. Housing bubbles and the fall-out from them can be likened to earthquakes: Everyone in San Francisco knows that there will be another major earthquake, but they don't know when it will happen.

This diversion into economics points to Ruonavaara's further consideration of the relationship between housing and theory. The core of Kemeny's original thesis is that housing researchers should apply "theoretical resources" from mainstream social science disciplines to housing ("theory about housing"). Further, it may be possible to utilise the study of housing to generate "concepts and ideas that are original, not imported from established disciplines outside housing studies" (p. xx). However, such concepts may fall short of true theory, being primarily categorical rather than identifying causal relationships. Overall, he concludes that, "[t]heorising about housing and from housing are ways to move forward. We need meta-theoretical statements about what housing from the scientific perspective *is* and here conceptual analysis and contemplation of housing experience can help... we need also to employ theoretical resources developed elsewhere" (p. xx). Broadly, this would describe the relationship between housing and economic theory: classical economics is applied to housing; observation of behaviour in housing markets and other related institutions may diverge from theory's original specifications, leading to its evolution.

Yet it also illustrates the importance of the "embeddedness" of housing institutions in society. The idea of embeddedness, associated with the economic sociologist Mark Granovetter (1985), emphasises the need to move beyond "utility maximising" individuals and to locate them within societal and cultural institutions. It is this attention to institutional and societal culture that provides the key to understanding why notionally similar policies or policy instruments do not necessarily operate in the same way in different cultures.

A prime example of this is the failure of the export of the US model of housing finance to post-Soviet Russia. Russia was persuaded of the need to develop a housing finance system after it had privatised the bulk of its public housing after the collapse of the socialist system. Great effort was given to the creation of US-style agencies modelled on Fannie Mae in order to facilitate a secondary market in mortgage-backed securities. Today, the total size of the Russian mortgage market is only about 3% of GDP, the smallest of any of the European post-socialist countries. In her book, *Housing the New Russia*, economic sociologist Jane Zavisca (2012) conducted qualitative interviews in a Russian city and found a strong cultural resistance to mortgage debt. In North America and Western Europe, most people who own their houses with a mortgage still see themselves as being home owners. In Russia, however, they do not. The term used by interviewees to describe mortgaged home-ownership was *kabala*, which roughly translates as meaning “debt bondage”. So what is presented as the “American Dream” or the “Property Owning Democracy” means quite the reverse in another (cultural) context. When I gave this account at a conference reflecting on 25 years of “transition”, an American economist who was heavily involved with advising governments in post-socialist countries in the 1990s exclaimed, “... and now you’re telling me that people don’t want mortgages. Well, they sure do where I come from!”

### **Theory, ethics and policy relevant research**

Whilst economics is capable of providing many of the tools with which to explain housing, it struggles with establishing an ethical basis from which to evaluate policy.

Clapham examines the role of housing theory in policy relevant research (“research that impacts on the policy process in some way, .either directly or indirectly, and is used by any agency involved in that process”; p. xx). He identifies seven forms of intervention that governments or their agencies can make, ranging from non-intervention to direct provision (and including subsidy and regulation in between). He notes the different models of the policy/ decision-making process, including rational decision making (and its pragmatic relation, satisficing|), and goes on to contrast these with the political approach through which policies are negotiated between and a structural approach based on control and instruments intended to influence behaviour. Clapham outlines three models of policy process: the rational; political; and structural. He goes on to argue that all policy research is in some way informed by a theoretical framework, even if it is not stated explicitly. This is a point with which I agree, but it is not the fundamental one.

A crucial factor in policy research is that it must also make some kind of implicit judgement about preferred outcomes: the underlying ethics of public policy. Clapham makes the important distinction between outputs and outcomes. A government housing programme might succeed in meeting an output target, but these efforts are misplaced if the houses are built where no one wants to live. Consequently, he prefers the notion of “wellbeing” in order to assess policies. In doing so I think he is really calling for better indicators, rather than challenging the implicit underlying assumptions that underpin much policy (and especially economic) analysis. “Wellbeing” seems to me to be another iteration of “utility” reflecting the moral

philosophy that historically underpins classical welfare economics. As Sen noted, utilitarianism enjoyed the status of "...something like 'the official theory' of welfare economics" (2009, p. 272). The focus on "wellbeing" is exemplified by Richard Layard's Wellbeing Programme established at the London School of Economics in 2001. This is an attempt to escape from judging outcomes in purely "economic" (meaning monetary) or material terms. A key empirical underpinning for this is the observation that increases in income in many countries does not result in corresponding increases in "happiness". Hence:

"To pursue happiness and wellbeing as the goal of public policy, it was clear that approaches to its measurement would need to be devised and that the causes of happiness and unhappiness would need to be understood in order to design remedies that were practical and cost-effective" (Layard, n.d.)

Layard's team went on to develop subjective measures of wellbeing, something that is overdue in housing studies. The need for such initiatives is illustrated by the way in which respondents in the European Union's Survey on Income and Living Conditions have somewhat different perceptions of sufficient housing space compared to the "objective" measure of overcrowding. Together with Chris Leishman, I have attempted to extend the "consensual" assessments of material deprivation pioneered by the Poverty and Social Exclusion project, by creating a "consensual" standard for housing deprivation, including overcrowding (Stephens and Leishman, 2017).

However, what Layard and the advocates of wellbeing are really arguing for and what I attempted to create with Leishman, are most recognisably better forms of utilitarianism, and are certainly some form of consequentialism. This approach does not challenge the central underlying ethical assumption of traditional welfare economics. Nor is it immediately obvious whether measures of wellbeing seek to address the probable non-isomorphic (heterogeneous) character of individuals' utility functions (Mirrlees, 1982). I will return to this point a little later.

There is therefore a need in policy research to think more carefully about the underlying ethics of what researchers and policy makers are trying to achieve.

Much housing-related research which addresses distributional issues is often sloppy because it does not engage with ethics. It is this absence of ethical consideration that can lead policy research down the path of lazy sloganizing, such as "housing for all" when referring to social/cost rental systems that are open to anyone regardless of need (Stephens, 2015). Self-evidently such housing, unless supplied to unnecessary excess, is not for "all". Houses have doors, and doors have locks. If one person lives in a house then someone else cannot. This is obviously of ethical interest.

So we need an ethical basis from which to make judgements about the distributional consequences of policies. An adherence to purely classical economics sanctions very little redistribution because it makes us prisoners of Pareto optimality (or economic efficiency), whereby a policy is sanctioned only if at least one person is made better off and none is made worse off. A central achievement of Rawls was to

establish a liberal justification and route map out of Pareto's distributional cul-de-sac. In *A Theory of Justice* (1972), Rawls' critique of Pareto efficiency (in which he argues for "fair equality of opportunity") flows into the section in which he establishes the "difference principle". This provides an ethical basis for when *inequality is justified*, namely: "... the higher expectations of those better situated are just if and only if they work as part of a scheme which improves the expectations of the least advantaged members of society" (p. 75). In our "housing for all" example above, if the poorest and most vulnerable people are de-prioritised (or not always prioritised) in the allocation of social housing, then it is (just about) conceivable that such inequality might be justified by an application of the difference principle – if, for example, spatial concentrations of poor households could be shown to reinforce disadvantage. But this would require (so far inconclusive) empirical support to triumph over hope or wishful thinking.

Justice and utility are but two "goods" that compete for attention. A problem with adopting single ethical objectives is illustrated by the frequent adoption of "decommodification" as a benchmark against which to assess housing or other policies. It implies that the "ideal" system is one in which there is no material reward for working. ("Decommodification", *pace* Esping-Andersen (1990) describes the situation when "... a person can maintain a livelihood without reliance on the market" (1990: 22).) Yet which democratic society would embrace this wholly as a moral underpinning to public policy? In the hey-day of social democratic Sweden, high levels of decommodification in unemployment benefits were made conditional on labour market participation at least partly because this was the only way to make a generous welfare state affordable (Vartiainen, 1998). Even in supposedly full-blown socialist systems with remarkably "flat" wage structures, prioritisation in the allocation of work-unit (hence non-market) housing was used as a form of *commodification* to reward managerial responsibility and performance (Szelenyi, 1983; Stephens, et al, 2016).

Rawls' (1972) used the term "primary goods" to incorporate a range of goods including civil and political rights and freedom, and placed these alongside income and wealth. This marked an attempt to address the plurality of "goods" over single sovereign goals. Sen (2009) has further argued that this can be transformed into his "capabilities approach" which relates to a series of capabilities to live a "good life": beings and doings such as good health and loving relationships. His approach emphasises equality of the ability to choose what might be regarded as a good life: "individual advantage is judged by a person's capability to do things that he or she has reason to value" (p. 231). In an earlier work, Sen (1983) noted that poverty is absolute in capability space (e.g. the ability to travel), but relative in commodity space (e.g. boots, horse, boat, train, car, aeroplane). In other words, as possibilities expand, the ability to attain the capability requires greater resources. The emphasis on the ability (capability) to choose different good lives at least partially enables a move beyond isomorphism. There are rich (and demanding) opportunities to apply this approach to housing policy, not least because it lies at the nexus of the attributes of a good life: security, home, community, health, work, education, leisure, and so on.



## Conclusion

The two Focus articles have the ability to prompt a valuable discussion in developing housing studies. A “grand theory” of housing is not possible because it is embedded in so many different institutional arrangements. Aside from the complexity of the issue, the interconnections that occur would surely require a theory of society as a whole to capture them. The introduction of wellbeing as an ethical underpinning is immensely valuable in that it requires us to re-consider what housing outcomes we should seek to promote through policy. This is, however, really a call for better utilitarianism that underpins traditional welfare economics. But why should utility (however measured) over-ride other widely supported goals? How does it address distributional questions? What if psychological fulfilment is predicated on diminished opportunities or expectations? Housing researchers need to engage with theories that address these deeply ethical questions. The unique features of housing would make it a fertile testing ground for capability-based approaches and in turn could assist in their development.

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